

Message Text

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C O N F I D E N T I A L HONG KONG 13668

CINCPAC FOR POLAD

E.O. 11652: GDS

TAGS: PFOR, HK, UK, MPOR

SUBJECT: HONG KONG-UK DISCUSSIONS ON NEW DEFENSE AGREEMENT

SUMMARY: DISCUSSIONS HAVE BEEN UNDERWAY FOR SOME TIME BETWEEN HONG KONG AND UK AUTHORITIES ON A NEW DEFENSE AGREEMENT TO REPLACE THE CURRENT ONE WHICH EXPIRES MARCH 31, 1976. HOWEVER, THE RECENT WEEK-LONG NEGOTIATING SESSION BETWEEN UK OFFICIALS, HEADED BY MINISTER OF DEFENSE WILLIAN RODGERS, AND THE HONG KONG TEAM, LED BY GOVERNOR SIR MURRAY MACLEHOSE, ENDED INCONCLUSIVELY. THERE WAS MUTUAL AGREEMENT ON RETAINING GARRISON FORCES HERE. AS IN 1971 WHEN THE PRESENT DEFENSE AGREEMENT WAS UNDER DISCUSSION, THE KEY AND CONTENTIOUS ISSUE IS THAT OF COST SHARING FOR A SCALED DOWN GARRISON FORCE. IN HONG KONG THERE HAS BEEN CRITICISM OF AND OBJECTION TO BRITAIN'S REQUEST THAT THE COLONY BEAR A SUBSTANTIALLY HIGHER PORTION OF THE DEFENSE BILL. LOCAL OPPOSITION HAS SUBSIDED BUT CAN BE EXPECTED TO REVIVE AGAIN WHEN AGREEMENT IS FINALLY REACHED. HONG KONG'S REACTION WILL DEPEND UPON TERMS OF THE NEW AGREEMENT AND THE ECONOMIC CLIMATE IN HONG KONG AT THE TIME. END SUMMARY.

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1. A JOINT STATEMENT ISSUED AT THE CONCLUSION OF THE OCTOBER 27-NOVEMBER 1, HONG KONG DEFENSE AGREEMENT TALKS NOTED THAT THE TWO SIDES CLEARLY ACCEPT THE "NEED FOR A GARRISON CAPABLE OF MAINTAINING THE SECURITY AND INTEGRITY OF HONG KONG AND DEMONSTRATING HMG'S CONTINUING RESPONSIBILITY FOR THE COLONY. SUCH A GARRISON," IT CONTINUED, "IS ALSO REGARDED BY BOTH GOVERNMENTS AS AN IMPORTANT FACTOR IN MAINTAINING CONFIDENCE."

2. THE STATEMENT NOTED THAT AGREEMENT HAS BEEN REACHED ON SCALING DOWN THE SIZE AND TOTAL COST OF THE GARRISON. THUS, THE PRESENT FORCE LEVELS WILL BE REDUCED TO A PROJECTED GARRISON FORCE COMPRISING FOUR INFANTRY BATTALIONS (ONE BRITISH), ONE GURKHA ENGINEERING SQUADRON, FIVE ROYAL NAVY CRAFT AND A SQUADRON OF EIGHT ROYAL AIR FORCE WESSEX HELICOPTERS. (ONE BRITISH INFANTRY BATTALION, THE UK ARTILLERY AND ARMOR UNITS, AND THE ROYAL NAVY FRIGATE WILL BE WITHDRAWN.) AT CURRENT PRICES, THE COSTS OF THE GARRISON WILL DROP FROM APPROXIMATELY HK\$700 MILLION (US \$140 MILLION) HK\$450 MILLION PER YEAR (US \$90 MILLION. HK\$5 EQUALS \$1.

3. AS IN 1971, APPORTIONING THE COSTS BETWEEN THE UK AND HONG KONG REMAINS A KEY AND UNRESOLVED ISSUE. PRIOR TO THE HONG KONG TALKS, THE GOVERNOR, IN HIS ANNUAL STATE OF HONG KONG ADDRESS, NOTED THAT THE HONG KONG GOVERNMENT (HKG) HAS SOUTH TO CONVINCE BRITAIN OF THE COLONY'S BUDGET DIFFICULTIES WHICH DICTATED CUTBACKS OF THE HKG'S OWN PROGRAM. APPARENTLY, HONG KONG HAS ACHIEVED A MODICUM OF SUCCESS. IN ADDITION TO REJECTING THE UK POSITION THAT HONG KONG MUST BEAR A SUBSTANTIALLY HIGHER PORPORTION OF THE TOTAL COSTS, THE JOINT STATEMENT ADDED THAT SUCH COSTS, "WILL HAVE A REALISTIC REGARD FOR HONG KONG'S ABILITY TO PAY." IT FURTHER REVEALED THAT DISCUSSIONS PERTAINED TO THE FURTHER RELEASE OF LAND PRESENTLY OCCUPIED BY THE GARRISON, MENTODS TO CALCULATING COSTS, RATES OF EXCHANGES USED, AND FORMULAS TO BE EMPLOYED TO REFLECT ANY INFLATION.

4. HONG KONG HAS CONTRIBUTED TO THE COLONY"A DEFENSE BILL EVER SINCE 1950. BUT THE UK REPORTEDLY NOW SEEKS TO HAVE THE CONFIDENTIAL

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COLONY'S CONTIBUTION INCREASED FROM APPROXIMATELY 1/4 TO ALMOST 3/4 OF THE TOTAL COSTS, PERHAPS AS MUCH AS HD\$375 MILLION (US \$75 MILLION) OF AN ESTIMATED HD\$400 MILLION (US \$80 MILLION). HONG KONG OFFICIALS, HOWEVER, ARE ATTEMPTING TO HOLD DOWN THE COLONY'S INPUT, REPORTEDLY TO SOME HD\$206 MILLION (US \$41 MILLION)

5. THE LOCAL REACTION TO THE UK"S INITIAL REQUEST HAS

BEEN MUCH THE SAME AS THAT AT THE TIME WHEN DISCUSSIONS ON THE PRESENT AGREEMENT WERE UNDERWAY, E.G., IT'S UNFAIR OF BRITAIN TO MAKE SUCH A REQUEST WHEN THE COLONY IS JUST BEGINNING TO RECOVER FROM ECONOMIC RECESSION, AND FUNDS TAGGED FOR THE GARRISON SUPPORT WOULD BE BETTER ALLOCATED FOR EDUCATION, HEALTH, AND SOCIAL WELFARE PROJECTS. OTHER LOCAL CRITICS OF THE UK REQUEST REJECTED THE HKG VIEW THAT THE GARRISON'S PRESENCE IS RELATED TO FOREIGN INVESTORS' CONFIDENCE IN THE COLONY AND AGAIN HAVE ARGUED THAT THE GARRISON FORCES WOULD NOT BE EXPECTED SUCCESSFULLY TO DEFEND THE COLONY FROM EXTERNAL THREAT. ALTERNATIVES SUCH AS BEEFING UP THE PRESENTLY UNDERSTAFFED POLICE FORCE TO BETTER EQUIP THEM TO COPE WITH DOMESTIC DISORDER OR ORGANIZATION OF HONG KONG'S OWN LOCAL DEFENSE FORCES HAVE ALSO BEEN MENTIONED. THE LATTER PROPOSAL IS ONE THE HKG IS ANXIOUS TO PRECLUDE. RESENTMENT HAS ALSO BEEN VOICED AT THE UK'S DEMANDS ON HONG KONG PEOPLE AT THE SAME TIME, LONDON HAS BEEN UNRESPONSIVE TO HONG KONG REQUESTS, PARTICULARLY LOCAL INTEREST IN REIMPLEMENTATION OF CAPITAL PUNISHMENT. LOCAL COURTS CONTINUE TO IMPOSE THE DEATH SENTENCE, THE GOVERNOR, AS THE QUEEN'S REPRESENTATIVE, ROUTINELY COMMUTES THE SENTENCES SINCE BRITAIN HAS ABOLISHED CAPITAL PUNISHMENT. HOWEVER, WITH THE EXCEPTION OF A MERE HANDFUL OF MILITANT/ACTIVIST STUDENTS, NO ONE HAS CALLED FOR THE COMPLETE WITHDRAWAL OF THE GARRISON FORCES.

5. WITH THE END OF THE TALKS HERE, LOCAL INTEREST IN THE DEFENSE BILL NEGOTIATIONS HAS TENDED TO SUBSIDE, BUT IT CAN BE EXPECTED TO REVIVE WHENEVER THE HK-UK AGREEMENT IS REACHED. ALTHOUGH THE CHIEF BRITISH NEGOTIATOR IS NOW SEEKING NEW TERMS OF REFERENCE, THE HKG ASSISTANT POLAD SEEMS CONFIDENT THAT THE TWO SIDES WILL REACH AGREEMENT ON COST SHARING AND OTHER IMPORTANT ISSUES PRIOR TO THE

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EXPIRATION OF THE CURRENT AGREEMENT IN MARCH OF NEXT YEAR. AT THAT TIME HONG KONG WILL GRUMBLE, BUT THE LOCAL EXECUTIVE AND LEGISLATIVE COUNCILS' APPROVAL FOR PAYMENT OF THE HONG KONG TAB WILL PROBABLY BE FORTHCOMING. THE NEW AGREEMENT WILL INDICATE NOT ONLY THE COLONY'S BILL BUT ALSO HOW THE BILL IS TO BE PAID, I.E., THE ACTUAL CASH CONTRIBUTION PLUS THE PORTION TO BE PROVIDED IN KIND SUCH AS CAPITAL CONSTRUCTION PROJECTS WHICH IN TURN WILL BENEFIT HONG KONG. IF VALUABLE LAND SITES CURRENTLY OCCUPIED BY THE GARRISON FORCES ARE RELEASED TO THE HKG AND SUBSEQUENTLY TURNED OVER FOR DEVELOPMENT BY LOCAL BUSINESSMEN, THIS COULD SERVE TO MITIGATE LOCAL DISPLEASURE SINCE SUCH A DEVELOPMENT WOULD ALSO HELP OFFSET COSTS BORNE BY HONG KONG.

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